



ACHIM SZEPAŃSKI 2019-09-04

## SPECULATIVE CAPITAL IN THE 21TH CENTURY

ECONOFICTION DERIVATIVES, MARX, MARXISM, MONEY ENDOGENITY, SPECULATIVE CAPITAL

1) The derivative is not something you hold in your hands like a book. It is essentially relational, but rather, it is a relation of relations. First, it is about the volatility of the derivative in relation to the volatility of the underlying. The decisive factor in the replication of the derivative is its monetary size and the speed of volatility. In a derivative contract, two counterparties “bet” on what will happen to the underlying asset and derivative in the future. This bet is valid for a specific time period specified in the contract. The underlying is also more about volatility than about the underlying itself.

2) Derivatives are sui generis speculative capital – a form of capital that manages the structure of nomadic and opportunistic capital that circulates self-referentially on its own markets. The design of a derivative contract has no need in itself, it merely has the intrinsic value of an instrument that links the derivatives as parallaxes in order to create a globally fluid market for capital and synchronise the derivatives and also increase leverage through instruments whose foresight of the future helps to create the future they foresee. This dynamic has a self-referential and relative dimension: the volatility of the derivative can induce volatility in the underlying, which in turn increases the spread of the derivative.

3) The derivative is a determinant form that can relate to all possible imponderables and uncertainties in the world; it involves a speculative ethos constituted between a culture of calculation and the illegibility of opportunity.

4) The pricing of the derivative is mediated by the abstract risk. For an economy driven by derivatives, indicators such as GDP are meaningless. As an economic totality, derivatives represent an in-determined, disparate aggregation of globally replicating contracts based on abstract risk. Without volatility no derivative and the profits resulting from it are conceivable, i.e. if derivatives do not circulate then they are worthless. In doing so, the events that result from socio-economic conditions are reduced to contextless risks and thus naturalized, i.e. to discrete, independent and liquid risks that are social exterior.

5) The application of mathematical models presupposes the presence and potency of relational concepts within a functioning community of speculators. Speculation becomes the privileged ethos precisely when the profits that result from it exceed the profits that result from the application of productive labor. Think of the real estate market, where the returns on a house as a financial investment have long since exceeded the value of the house as a material good or commodity, and are increasingly decoupled from the costs of the classic commodity “house”.

6) There is a need in the derivatives markets to constantly invent new exotic or synthetic derivatives in order to identify and capitalize global money capital flows, i.e. to subject them to the logic of leverage. Derivatives are not to be understood as commodities, but as non-good-shaped commodities, i.e. they are attached to the commodity form, insofar as each derivative contains a particular and thus concrete risk, but also has to be regarded as a social meditation of the circulation of speculative capital. Derivatives monetize the risks for a certain, contractually fixed period of time. The now (the beginning of the contract) is a virtual and spaceless moment. What is decisive, however, is that the derivative contract has a duration related to the future. Its utility value is its dynamic replication. Derivatives exist in the interval between the beginning and the expiration date, continuously creating a new now (and new wealth) by opening and closing the gap between a realized price and a possible future. Derivatives fill a space in which wealth is created as a consequence of volatility, as a dispersion or spread of what they represent as the imaginary center of spreads. Derivative contracts are intrinsically performative in that they create the conditions of their own existence, just as saying the word "promise" produces this promise until it expires under certain conditions.

7) From the constant film of time, the derivative cuts out a certain time interval and shapes it, namely an interval that represents the future. A situation developing in the future is contractually shaped, which triggers expectations, memories and strategies, but also fear and anxiety for the contracting parties;

it is about an interpolation of the future, which at the same time leads to the expansion of the present, but also to its destabilization. Traders are doomed to anticipate a future they cannot know, and in doing so they follow the guidelines of financial theory, which attempts to determine the future as a probability-theoretical distribution. This use and this determination of time distinguish the derivative essentially from the classical commodity. The buyers and sellers of a classic good can agree on a price because they ascribe different utility values to the goods they exchange. While the seller tries to make a profit, the buyer wants to satisfy his needs. This is not the case with derivatives, which are not goods and have no transparent value in the here and now, because the only measure that motivates the transaction is the calculation of a future value. The derivative aims at a future, it can only be priced out because the market participants assume a bid-asked spread insofar as they reach agreement on the net value of the derivative but differ in their expectations and speculative calculations on the future value of the derivative.

8) Dynamic replication, which concerns the relationship between volatility and liquidity, is necessary for the derivative. The possibility of profitably exploiting volatility is absolutely dependent on the liquidity on the financial markets. The derivative is not only to be understood as an anticipated income stream or a yield, but also its monetary size and the speed of its volatility have an influence on the level of the yield. The price thus refers to the expected future volatility of the derivative, which is measured as the degree of variance between the moment of the transaction and its maturity. The derivative price is therefore centered around the relation between the expected volatility and the maturity. The collective confidence of market participants in the future liquidity of the market is essential here. Derivatives therefore hold the performative power of the ritual in order to collectively set in motion exactly what each individual agent presupposes. But the liquidity on the markets evaporates again and again because they do not remember their previous mistakes.

9) There is a spread and difference between risk and uncertainty that is itself volatile. It is not in itself a matter of reducing risks, but rather of hedging them in order to increase speculative capital, so that the risk counts purely quantitatively, i.e. as the calculation of a price with a number. The risks are separated from the conditions of their realization and this has certain implications: The risk can now be defined in the categories of volatility and measured as the probability of the relative variance of the derivative price. Volatility itself is now measured into a new logic of production. The derivatives capitalize the volatility they actively create.

10) While the real economy depends on avoiding disruptions, interruptions and volatility as much as possible, the latter is the lifeblood of finance, insofar as volatility must be capitalized, which in turn often enough serves the real economy. The real economy benefits if volatility in the financial markets is gradual and predictable, while leaps in volatility drive the financial markets forward if they do not restrict liquidity. Derivatives thus also reconfigure the values of classic commodities, repricing them in terms of their uncertain future value. And this in turn affects the structures of the labour markets and the capital distributed in production. If a commodity is sold before it becomes a worldly thing, then derivatives infiltrate circulation into production, precisely by attributing floating and contingent values to the commodity. Speculating on a commodity driven by the derivative (real estate prices) means speculating on the spread between the directionality of the prices and the spread produced by the derivative markets.

11) The exchange value of the derivative is by no means related to abstract work, but is the expression of a social abstraction of the risk generated in a given time interval. The value of the derivative is based on information and the conditions codified in the contract; it does not lie in a labor-based commodity, but at best in the labor needed to create the interconnectivity of the capital that now circulates globally. The general problem of financial markets is to generate as much volatility as possible without the volatility producing an adverse effect on liquidity. The inherent dynamics of the markets then lies precisely in the need to arbitrage on volatility through financial transactions and to calculate the level of risk (through leverage) necessary to generate exactly the volatility needed to make arbitrage work. The tendency towards crisis processes implies that a drop in volatility, which leads to an increase in stability in the production-related markets, can exacerbate instability in the derivatives markets. An expected drop in volatility reduces the profitability of arbitrage, which in turn motivates traders to compensate for the fall in

profits by increasing leverage, which in turn makes it more difficult to maintain outstanding positions and small changes in the underlyings result in large changes in the prices of derivatives. If the derivative is systematically transformative, it is because it is a self-exploiting and expanding form of money, i.e. speculative capital.

12) Derivatives markets must be volatile enough to attract speculative capital, but they must be able to prevent the point at which the elasticity of volatility can become dangerous for them. The markets produce the disease against which they need to immunise themselves. The logic of speculative capital consists in the constant reinforcement of the motive to create possibilities for differential monetarisation, or, to put it another way, logic must create the capitalisation of difference. Logic is a mode of circulation based on risk in its derivative form, and this always refers to capital accumulation. Derivatives organise capital flows between different securities, currencies and countries, which means that they necessarily have regulatory capacities and take over state tasks and functions, thereby integrating politics into the economy. At the same time, the social in its contingency, which traverses space-time, remains a considerable resource for the markets and for the mosaic of uncertainties that allows derivatives markets to create a sustainable market in the first place.

13) There are two ways of measuring the movement of a future-oriented derivative: either by measuring historical volatility by tracking how the derivative and its price fluctuated in the past, or by reading implied volatility, i.e. assuming an anticipated price at its decay and then tracing it back to the present (discounting). Here, the Black-Scholes formula is used to calculate the leverage of a given derivative.

14) As far as temporality is concerned, credit must anticipate the creation of derivatives, which in turn serve as a hedge for loans, but also for the derivatives themselves or for the liquidity of an institution. The symbiotic form between credit and derivatives creates a temporal dynamic in which the production of money no longer correlates with the production and circulation of goods and services. A growth of the US dollar that far exceeds the growth of production, as well as the fact that the velocity of money in production decreases, points to a circulatory capital that moves largely independently of production.

15) Speculative capital takes the form of derivatives because they (as an embodiment of abstract risk in a single instrument) unify various concrete risks, even if they mask the uncertainty that appears on the horizon. The market makers design derivatives in order to liquidate the risks that arise in different concrete situations and to use the derivatives as an objectivation of the abstract risk. This form of monetary circulation differs from credit and fictitious capital. The abstract risk is separated from its social contexts and relations, i.e. a given situation is assumed to be risky and the risk is abstracted from the social, economic and political conditions to translate it into an analytical and mathematical space that is assumed to be independent of the circumstances. In the last 40 years, generative and classificatory schemes (interest rate risk, credit risks, transaction risks, direct risks, counter risks, liquidity risks, etc.) have emerged, and ultimately every variable that can be identified becomes a risk. This nominalization implies that finance sets each type of risk as an ontologically

real object. The respective types of risk are translated into an abstract form, or to put it another way, the incommensurable and variable forms of risk are transformed into a singular form: abstract risk.

16) This is not about two separate forms, but about two inseparable dimensions of risk involved in the trading of derivatives. Each derivative is qualitative in the individual case, i.e. particular in the recording of a certain ensemble of identifiable risks, and at the same time systemic, insofar as the abstract risk co-produces the market as mediation. The concrete risks are necessary for a socially generated volatility to take place, while the abstract risks synthesize the concrete risks, so that a general pricing is possible at all. This is the first step in establishing connectivity. Abstract from all the socio-economic contexts, the abstract risks can compare and quantify concrete risks through mathematical formulas such as the Black-Scholes equation.

In a given market, a concrete risk is particular and is generated by a fluid, heterogeneous circularity, but as an abstract risk it is an individual dimension of a homogeneous and systemic mediation that aims to reproduce the market as a totality. The abstract risk is aimed precisely at what the agents do without exception and unconsciously, namely to imagine the market as a totality so that it remains liquid, through countless iterations of price settings and in circumstances that change constantly, especially those that make the recalibration of prices possible in the first place. All the relations included in these relations are priced out on the financial markets – they circulate and speculate on them. The agents constantly misjudge the social dimensions of risk, precisely because the market appears to them as an objectified and formal construction. The abstract risks subsume the concrete risks and, as mediators, provide the liquidity that makes the derivatives market possible in the first place. Without the abstract risk, there is no liquidity and no derivatives market.

17) It is not the real economy that drives the financial economy, but the financial economy that structures the real economy. The derivative driven by risk is the new means of sewing together circulation by objectifying the risks (through abstraction and monetarisation) and thus creating and trading exactly the connectivity that capital needs. Completely anonymous agents and organizations are brought together through their participation in markets based on risk-based transactions.

18) The rise of the derivative impregnates capital with an additional dynamic so that it evolves from a credit as a means of payment to a risk-determined contract, which in turn relates to the credit. This development was inherent and latent in capital from the outset. The self-evaluating value now appears objectified in the material form of a written derivative contract. Every contract and every transaction is to be understood as the continuation within a complex circulatory socio-economic structure,

whereby the social increasingly merges into the derivative structure.

19) To understand the social, it is necessary to consider the extraordinary gap between the economic models used to model the market and the justifications for using these models. The paradox that financial economics needs on the one hand is the investment and thus also the dependence on a set of financial models that are there to determine the risk (models that systematically clasp the forces of social insecurity), and on the other hand a performativity is needed that is the prerequisite for the success of the models and for the continuation of the markets. The actions of the isolated agents are intrinsically collective. Trading derivatives and speculating on their future value, assuming that agents recognize the unpredictable abstract risk, are only possible for the agents themselves if they take certain dispositions related to plural forms of rationality (maximizing profit, competitive dynamics, self-esteem, speculative ethos and even a certain nationalism). These dispositions, which mediate every purchase and sale of derivatives and also the past with the future, are based on the relation between the organization of these dispositions, which are constitutive for the habitus of the agents, and the structure of the possibilities, which are constitutive for the financial field at every conceivable point in time.

The financial field and the specific markets require the cognitive and generative schemes that the agents implement in their attempts to capture the field and the markets. The markets have a performative dimension that supports the ritual inherent to them and embodied in social practices. Derivatives are thus to be understood as relational objects that function within the social imaginary of markets. They only exist insofar as they are objectified in the practices of the agents and are interpreted as such.

In addition to volatility and price fluctuations, time is therefore one of the important variables that designs and defines the derivative contract. With their design, the derivative contracts are within a predefined temporal parenthesis. The financial economy reduces temporality in the financial markets to an abstract and formal time, which is assumed to be reversible, safe and belonging to a transhistorical logic of maximizing utility. This, however, stands in sharp contrast to the current practices of financial market players, who constantly overwrite and discount the temporality of mathematical models. Finally, LiPuma points to the temporality of jobs in financial companies. It must be analysed in the context of the investigation of the financial habitus of agents.

20) Central to the temporal dynamics of the financial markets is the category of risk, because this is the essence of the specific form of betting that articulates itself for speculative capital with derivatives. And this creates a social field that is characterized by the fact that market participants must include the risk structure in their habits. The systemic risk then manifests itself in the loss of confidence in the solvency of the counterparties and is realized as the mutual restriction of liquidity. A movement is set in motion with which the realization of a certain level of profitability becomes the base level of the temporal framework to which referentialization will take place in the future. No matter what happens in the markets, the systemic dimension of risk, which is related to the market as a whole, can trigger a crisis. This is the *modus operandi* of finance and derivatives, insofar as the risk is at the same time a concrete speculative and socially generated activity that imbues the market with its systemic cohesion. The fall in the price of derivatives during a crisis is by no means due to incorrect pricing, rather the price of the concrete risk expresses the temporality of the systemic risk. The false pricing indicates the internal structural state of the markets driven by the treadmill effect. Two necessary tendencies contradict each other, namely the need to increase risk and the need to hold the integrity of the market together. These two opposing tendencies produce an intrinsic structural tension that is *sui generis* social and lies within the logic of speculative capital itself. This immanent logic does not mean that the market follows a linear logic and must collapse systemically, but it does justify the possibility of crisis processes inherent in the financial markets.

Time itself constitutes a form of abstract risk. Time is an ubiquitous form of risk that applies to every type of derivative. In production, actors minimize externally generated risks by extending time horizons. An inverse set of risk conditions, on the other hand, determines the circulation. Since each derivative has an expiration date and the time period involved in it has no external referent, time is both a source and a quantifiable dimension of risk. For speculative capital, minimizing risk means compressing or neutralizing the effects of time: volatility, market instability and the emergence of contingent events. This compression of time also has a qualitative effect: speculative capital generates an end in itself by means of connectivity, the derivative; the derivative serves as a source of profits and its own reproduction. The resulting culture and economy of finance produce new social forms such as abstract risk, new technologies such as the pricing of derivatives through mathematical models, and new self-referential contractual arrangements. Factors such as self-referentiality, the compression of time and the monetarization of risk generate derivative markets whose construction of time has no necessary relation to the markets of the underlyings or to the temporality of institutions, including financial institutions.

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